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Poultry and Products

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Report Highlights:

Increasing demand fueled by affordable prices, and better feed availability are expected to lead to 15 percent growth in India 2002 broiler production, estimated at 1.4 million tons. India might soon emerge as a competitive supplier of poultry meat in world markets given its greater production efficiencies, lower feed conversion, and mortality rates attributed to increasing integration.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

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Production

India's broiler sector is expected to grow by 15 percent this year (2002). Production is estimated at 1.4 million tons, due to increasing demand, better feed availability and affordable prices supported by increasing trend of integration mainly in the southern and western growing belts. Production is forecast to accelerate in 2003 to 1.5 million tons of meat due to increasing demand, the beginning of export oriented production, and favorable feed situation in the country.

Despite high corn prices, consumption of commercial feeds rose an estimated 15 percent last year (2001) to 3.2 million tons. This was due to improved farmer awareness of the benefits of balanced poultry nutrition, increased commercialization of the industry, and flourishing vertical integration in some regions. Intensive meat production occurs in pockets throughout India, and it is generally located according to the availability of transportation facilities, inputs and demand for end products. Broiler production mostly occurs near consumption centers due to constraints in live bird transportation and consumers' preference for freshly-slaughtered meat. Furthermore, improved transportation facilities and changes in lifestyle, and attitude toward processed meat in the major metropolitan cities among the upcoming generation have led to increased demand for processed poultry meat.

Production Developments

In the south of India the broiler industry has become increasingly integrated with increasing margins for entrepreneurs. While in the east and the west, integration is slowly expanding to become the mode of production in most growing areas. Some of the integrators have successfully extended their reach to the retail level in order to net more margin. The industry in the north remains largely unintegrated, with producers regarded as "risk adverse." Here very little attention is paid to feed conversion ratios, appropriate nutrition or quality. Under integration as followed in the south, growers receive day-old chicks, feed, medicines and other services with the assurance that their birds will be purchased at a contracted price. Costs are deducted from the payment to be made to the farmer and he is provided bonuses if feed conversion ratios (FCR) improve and otherwise if the FCR or mortality rate exceed acceptable levels. This arrangement has encouraged a number of small farmers to enter the poultry business to supplement their incomes.

Processed poultry meat constitutes only about 5 percent of total production. Industry sources estimate that with the increasing income levels and more working couples, processed meat may increase to around 15 percent of total output by 2005. Many of India's poultry integrators either already have, or are building poultry processing facilities that produce chilled and frozen products for institutional customers, as well as sales to retail outlets. Some of the integrated processors process and package to the quality specifications of the multinational restaurant chains operating in India, and one is also exporting frozen whole birds to markets in the Middle East. The integrators would appear to be the principal advocates and promoters for a shift away from marketing live birds and towards chilled and frozen products. At present, however, all of the processing facilities in India are running well below capacity and operators claim that the enterprises are not profitable.

Despite high local prices for corn and soybean meal, consumption of commercial feed continues to grow due to increased availability of coarse grains and other oilseed meals coupled with a rising awareness by producers of the benefit of improved nutrition. According to trade sources, increasing prices of soybean meal and corn due to artificial shortages created by a few hoarders have led to a decline in their usage as farmers switched to alternative cereals and oilseed meals. Corn prices are still trending higher due to the prolonged dry conditions in major corn growing areas, poor handling and transportation facilities, and high import tariffs. Industry sources estimate that the compound feed sector will need about 9.0 million tons of corn by 2005, of which only 5.0 million tons can be supplied locally as domestic corn production continues to stagnate. Due to higher prices of soybean meal and increased availability of other meals, use of soybean meal in the domestic poultry sector during last year is expected to be lower by 30 percent, estimated at 1.0 million ton.

Consumption

Contrary to popular belief, the "People of India" survey conducted by the Anthropological Survey of India during 1995 concluded that only 20 percent of the total communities surveyed were vegetarian. The survey also indicated that men and members of the younger generation are more likely to be non-vegetarians. For many Indian consumers, vegetarianism is less a matter of conscience than of economic necessity. These factors bode well for poultry in India, as per capita incomes and the size of the middle class increase. Thirty percent of the population (roughly 300 million) is in the 10-24 age group, implying strong growth potential for the poultry market. Given pricey mutton and restricted availability of fish to the coastal regions of the country, poultry meat has wider regional acceptance than any other meat.

Integration has contributed not only to greater production efficiencies, including lower feed conversion and mortality rates, but also reduced marketing margins due to the increased market power of the integrators. In addition to reducing production costs, the integrators have also helped cut consumer prices by cutting into the traditionally large marketing margins. The integrators have tended to establish wholesale and retail price leadership in the markets where they operate, both reducing the number of middlemen and forcing wholesalers and retailers to reduce their margins. In markets dominated by integrators, such as Coimbatore in the south, retail outlets are either owned by integrators, or sell birds supplied by integrators at relatively low margins. In other regions, particularly in the north, the traditional wholesale traders still dominate the markets, and marketing margins and retail prices are considerably higher than in the south. Lower retail prices appear to have stimulated consumption, with per capita consumption in southern India, where the integrators have been most active, reported to be 4 times the national average. Integration is likely to continue to expand, allowing the industry to effectively meet the growing demand for poultry meat and to reduce prices through improved economies of scale.

Despite recent trends in demand and integration, the Indian poultry industry remains primarily a live bird market. Although there is a growing market for chilled and, to a much lesser extent, frozen poultry products among restaurants and hotels, most consumers still have a strong preference to purchase live birds. Most birds for home consumption are purchased live and slaughtered in small local shops. Because of the live bird preference, and the very limited market for frozen poultry, movement of poultry

from low cost to high cost areas within the country is restricted by the high mortality, transport and shrinkage costs associated with moving live birds over poor roads in hot weather. As a result, poultry integrators and processors have very limited options for using frozen storage to balance supply and demand, leading to significant temporal and spatial instability in producer prices. In addition, it restricts the market potential for imported poultry meat products, which have to be brought in either chilled or frozen form. Although the shift to chilled products is likely to continue in urban areas, in part due to slaughter restrictions such as recently introduced in New Delhi, growth in demand for frozen products will be slowed by weak cold chain facilities and slackness in implementation of such regulations.

Luxury hotels account for most of the consumption of processed poultry products. Most of the processed meat is sold in the form of chilled whole birds or parts, with limited sales of frozen products. The luxury hotels in need of value added meat products, such as sausages, salami etc., depend on imports, as well as domestically produced, value-added products. However, even in the luxury hotel segment, buyers frequently do not differentiate between manually processed birds, and those that are mechanically processed under hygienic conditions.

Production Policy

Poultry receives far less government assistance than all other sectors in agriculture, a situation which keeps the industry's growth in check despite its potential. Poultry men receive no subsidy to purchase power (energy) or other production inputs unlike their counterparts in Indian agriculture. They, also, are taxed at the same rates as non-agricultural businesses. The government does fund several research activities, as well as the Agricultural and Processed Products Exports Development Authority, which aids in building infrastructural support such as cold storage and air freight subsidies for the export of eggs and egg products, mainly to the Middle East. Overall government support for the poultry sector did, however, increase from rs. 57 million (\$1.2 million) in 2001/02 to rs. 72 million (\$1.5 million) this year (2002/03).

Trade

Eggs, egg products and poultry meat are freely tradeable. Imports of meat and meat products are effectively restricted by high tariffs. Though imports of poultry meat is under the open general license (OGL), their imports are sharply constrained by sanitary restrictions. Luxury hotels may import the product at a tariff rate of 25 percent. Such imports are, however, negligible due to their centralized procurement system which depends heavily on local suppliers, as groceries are usually procured based on an open tender system. Government policy permits imports of grandparent breeding stock under OGL, subject to importers getting an advance special import permit issued by the Department of Animal Husbandry, Ministry of Agriculture. Grand parent hatching eggs and the grand parent chicks carry a tariff of 35.2 percent. Most broiler breeds are derivatives of American strains such as Cobb, Arbor Acres and Hyline. Some feed additives such as lysine, methionine, choline and vaccines/vaccine related raw materials are mostly imported and their imports are under OGL.

Market Opportunities

The expansion of integrated poultry production is likely to help sustain high growth in meat production and also create an increasingly competitive and cost-conscious industry. The industry may become increasingly sensitive to fluctuations in prices of feed ingredients, especially corn which is occasionally in short supply in some regions as they operate on thin margins. With the growing trend toward integration and industry consolidation, the large integrators may have greater influence on government decisions regarding corn import quotas and tariffs. Since most of the integrators do not have their own grand parent operations, the integrators also are potential regular importers of grand parent birds of U.S. based breeds. And, although India is currently a substantial exporter of soybean meal (competing against the U.S. in certain markets), the rapid growth in poultry feed demand is beginning to erode growth in exportable supplies, creating potential market opportunities for other soybean meal exporters, including the United States.

Table 1: Trade Treatment for Poultry and Feed Ingredient Imports 1/

HTS Code	Commodity	Trade Policy*	Tariff**
010511	Poultry Grand Parent Stock	Free	35.2
0207	Poultry Meat	Free	108.00 1/
0407	Eggs (Table/Hatching)	Free	35.2
0408	Egg Yolks	Free	35.2
100590	Corn, for Feed	Free 2/	15/50
100700	Sorghum	Canalized	0
230120	Fish Meal	Free	0
2306	Oil meals	Free	45.60
230910	Concentrates for Compound Feeds	Free	45.60
230990	Poultry Feed	Free	45.60

1/ All tariffs are equal to or below GATT bindings. Whole Birds, Dressed Fresh/Chilled (0207.12) attracts a GATT bound duty of 35 percent.

2/ Corn could be freely imported subject to a TRQ i.e. corn could be imported at a tariff rate of 15 percent to a level of 400,000 tons and if the total imports exceed this amount it will be assessed a 50 percent import duty. Certificates to import corn will be issued by the office of the Director General of Foreign Trade.

* Livestock and livestock product imports would be allowed against sanitary import permit to be issued by Joint Secretary (Trade), Department of Animal Husbandry, Ministry of Agriculture.

** Inclusive of special and additional tariffs as applicable for the respective commodities.

Table 2: Commodity, Chicken, PSD table

PSD Table							
Country:	India						
Commodity:	Plty, Meat, Chicken -16 wks						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Calendar Year Begin		01/2001		01/2002		01/2003	(MONTH/YE AR)
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	735	1250	755	1400	0	1500	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	0	0	0	0	0	0	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	735	1250	755	1400	0	1500	(1000 MT)
Whole, Exports	1	1	2	2	0	5	(1000 MT)
Parts, Exports	0	0	0	0	0	0	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	1	1	2	2	0	5	(1000 MT)
Human Consumption	734	1249	753	1398	0	1495	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)

Total Dom. Consumption	734	1249	753	1398	0	1495	(1000 MT)
TOTAL Use	735	1250	755	1400	0	1500	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	735	1250	755	1400	0	1500	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)